

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Nation Analyst: John Pavalasky Bill Number: AB 848

Related Bills: See Prior Analysis Telephone: 845-4335 Amended Date: January 22, 2004

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Credit For Qualified Reduced-Emission Vehicles/Depreciation Deduction/No Deduction Allowed For Large Sport Utility Vehicles (SUV)

☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended July 14, 2003.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED July 14, 2003. STILL APPLIES.

☒ OTHER - See comments below.

## SUMMARY

This bill would deny the general California business incentives relating to vehicles when a business purchases a large sport utility vehicle (SUV). The revenue from disallowing these incentives would be used to fund a credit for the purchase and use of qualified reduced-emission vehicles in this state.

## SUMMARY OF AMENDMENTS

The January 22, 2004, amendments would change the effective dates of the credit and deduction denial to apply to taxable years beginning on or after January 1, 2005, and before January 1, 2009. In addition the credit is modified to sunset only after the three-year recapture period has expired.

Except for the EFFECTIVE/OPERATIVE DATE the analysis of the bill as amended July 14, 2003, still applies and is not repeated. However, a new revenue estimate is provided to reflect the amendments made to the effective dates.

## EFFECTIVE/OPERATIVE DATE

This bill, as a tax levy, would be effective immediately. However, as amended January 22, 2004, this bill provides that the credit would apply to taxable years beginning on or after January 1, 2005, and before January 1, 2009, and a sunset date of December 1, 2011, is provided. The bill provides that the business incentive disallowance would apply to property placed in service on or after January 1, 2005, and before January 1, 2009, and a sunset date of December 1, 2009, is provided.

Board Position:

\_\_\_\_\_ S \_\_\_\_\_ NA \_\_\_\_\_ NP  
\_\_\_\_\_ SA \_\_\_\_\_ O \_\_\_\_\_ NAR  
\_\_\_\_\_ N \_\_\_\_\_ OUA ☒ PENDING

Legislative Director

Date

Brian Putler

2/4/04

## POSITION

Pending.

## ECONOMIC IMPACT

### Revenue Estimate

Based on the discussion below, the following table reflects the estimated impact of this bill:

Revenue Impact of AB 848 as Amended January 22, 2004 For Taxable Years Beginning On Or After 1/1/2005 Fiscal Years Assumed Enactment After 6/30/2004 (In Millions)				
	2004-05	2005-06	2006-07	2007-08
Sport Utility Vehicle Deductions	\$5	\$20	\$30	\$20
Qualified Vehicle Applied Credits	\$0	-\$20	-\$30	-\$25
Revenue Impact	\$5	\$0	\$0	-\$5

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

The impact of this bill would depend upon the following:

- The number and costs of large sports utility vehicles
- The amount of reduced depreciation and expense deductions that would have been allowable under current law
- The amount of tax decreases resulting from the resale of large sports utility vehicles at higher cost basis
- The number of qualified reduced-emission vehicles sold for use in California
- The average tax credit certificate issued per qualified reduced-emission vehicle
- The number of individuals claiming the reduced-emission vehicle credit
- The average applied credit against tax liabilities.

For purposes of this analysis, information obtained from a report released by US Public Interest Research Group in 1999 was used. In addition, the following assumptions were made:

- (1) Assumed that approximately 50% of large SUVs sold or leased currently are allowed some sort of deduction. Of these vehicles it is estimated that approximately 20% qualify for both operating lease deductions and depreciation deductions, and 10% would be exempt from this bill.
- (2) The average annual deduction per vehicle is \$5,000.
- (3) The average write-off period for these vehicles is three years.
- (4) The business use of leased SUVs would decline by 15% annually as a result of this bill.
- (5) The average marginal tax rate of 6% was used.

## **SUV Deductions**

To arrive at the annual revenue gain, it was determined from the US Public Interest Research Group's report that approximately 730,000 qualifying vehicles would be sold or leased in the United States in 2005. Of this total it is estimated that 11% would be located in California (84,000).

Assuming 55% of the vehicles would no longer receive an average deduction of \$5,000, disallowed deductions would amount to approximately \$230 million for vehicles purchased or leased in 2005. Assuming an average marginal tax rate of 6% the first year, revenue gain is estimated to be approximately \$14 million ( $6\% \times \$230 \text{ million} = \$14 \text{ million}$ ). The fiscal-year estimates above reflect changes in estimated tax and final tax payments. That is, it was assumed that 35% of the \$14 million first-year revenue gain would be reflected in increased estimate payments in the 2004-05 fiscal year resulting in the \$5 million estimate for that fiscal year. Credits, however, exhibit a different fiscal-year pattern as discussed below.

The above revenue impact for the SUV deduction represents a timing effect, reduced depreciation deductions, and expenses offset in future years by a decrease in the amount of gain realized from the sale of the vehicle due to its unreduced basis under this bill.

## **Qualified Vehicle Applied Credits**

According to the Air Resources Board, it is estimated that the number of qualifying vehicles will exceed the estimated increase in state taxes when divided by the maximum credit allowable per vehicle of \$1,000. Therefore, all of the estimated increase in state taxes for any given fiscal year would be allocated to the credit.

The fiscal year cash flow patterns reflect applied credits in the respective years and are based on an analysis of how taxpayers adjust their tax payments to reflect a change in liability resulting from current law. That is, prior fiscal year estimated tax payments are not typically adjusted to take into account the availability of the credit but instead, because of the carryover, the application of the credit is reflected in the succeeding fiscal year. Thus, applied credits reflect not only the credits allocated in 2007-08, but also the carryover of unapplied credits from prior fiscal years.

## **LEGISLATIVE STAFF CONTACT**

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